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What makes a good annual report?

The definition of 'useful information' has evolved considerably, alongside the changing needs and desires of investors and stakeholders. BY HANNY KUSNADI

AS A university professor, I am privileged to be constantly surrounded by inquisitive young minds with an insatiable thirst for knowledge.

Among the thousands of students who have attended my lectures, there is always one recurring inquiry that captures the very essence of corporate communication: "What constitutes a good annual report?"

While this question might seem straightforward, the answer is often far from simple.

The annual report serves as a critical strategic communication tool. It provides a concise and dynamic narrative through which a company communicates its journey – its past triumphs, its current challenges, and its aspirations.

Annual reports wield the power to shape perceptions, establish trust, influence sentiment and foster connections with stakeholders.

Given the significant role of annual reports in the corporate landscape, the Best Annual Report Award (Best ARA), introduced in 1974, aims to promote excellence in corporate reporting that surpasses minimum regulatory requirements.

This award encourages transparency that caters to the needs of investors, as well as other stakeholders such as employees, creditors and the public.

Presented as part of the Singapore Corporate Awards (SCA), the Best ARA recognises listed companies on the Singapore Exchange (SGX) that exhibit exemplary reporting in their annual report.

As a member of the judging panel for this year's Best ARA, I revisited the profound question of what really makes a good annual report.

While a concise answer typically emphasises useful information, the definition of "useful information" has evolved considerably, alongside the changing needs and desires of investors and stakeholders.

From a mandated standardised compliance document centred around shareholder value, the annual report has progressively shifted its focus to additionally emphasise stakeholder value.

Investors and stakeholders now seek a diverse, holistic, and multifaceted understanding of a company.

The judging panel for the Best ARA has thus established thorough assessment criteria that reflect the multi-dimensional expectations from an annual report.

Companies are evaluated across several dimensions: performance review, business plan and prospects, risk assessment and management, environmental, social, and governance (ESG) considerations and accountability, as well as overall informativeness and clarity of the reports.

This year, the Gold Awards for Best ARA were given to DBS Group Holdings in the big-cap category (market capitalisation of S$1 billion and above), SBS Transit in the mid-cap category (market capitalisation of S$300 million to less than S$1 billion), and Banyan Tree Holdings in the small-cap category (market capitalisation of under S$300 million). CapitaLand Ascendas Reit secured the top prize in the Reit and business trust category.

Transparency with perspective

Transparency serves as a core foundation of trust, as information loses its usefulness in the absence of trust.

Companies that confidently invite stakeholders to delve into and evaluate their business with openness and clarity enable them to make well-informed decisions.

It is vital for companies to provide transparent information that offers perspective in their annual reports, says Dr Hanny Kusnadi. PHOTO: PIXABAY

> **Just as different sections of an orchestra collaborate to create a captivating musical journey, a strong annual report harmonises financial and non-financial elements into an engaging symphony that resonates with stakeholders.**

However, it is important to highlight that transparency in isolation is naive, because it can lead to information overload and indigestion. Both insufficient and excessive transparency can ultimately become unactionable.

What is vital for companies is to provide transparent information that offers perspective, encompassing not only positive developments, but also addressing negative aspects responsibly.

Companies should adeptly articulate their narrative in a succinct, yet compelling, manner to effectively convey the message of value creation.

The recipients of this year's Best ARA are able to skilfully immerse readers in an engaging exploration of the company's essence.

DBS' commitment to the integrated reporting framework shines through in its annual report, effectively communicating the key drivers of its business value.

In addition to concrete analyses of strategic objectives and progress, diverse insights and commentaries from its top management team also help to shed light on the group's strategies to preserve and enhance long-term value.

While employing a more traditional reporting format, SBS' annual report boasts a well-structured design, facilitating seamless navigation through its narrative and data.

Banyan Tree's annual report equally captures the brand's essence, and illustrates how the company's guiding vision and principles manifest in its actions and performance.

Understanding, not just informing

Similar to a skilled maestro elevating a musical score through orchestration, providing transparency with contextual perspective is paramount in facilitating understanding.

Some reports merely fulfil minimum requirements, offering a laundry list of common content that fails to add substantial value or insights.

How often have we experienced moments of deja vu while perusing annual reports, that lingering sensation of having encountered the same information elsewhere before?

Descriptive and genuine explanations play a pivotal role in augmenting transparency, and when combined with engaging visual aids, can truly distinguish a report.

For example, DBS minimises boilerplate statements in the qualitative descriptions of its annual report, and CapitaLand Ascendas Reit's succinct presentation in the "Manager's Review" section is both informative and easy to comprehend.

SBS underscores additional measures to reinforce its corporate governance, and Banyan Tree provides a thoughtful assessment of its gender parity, revealing gender pay gaps and outlining future steps

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for improvements.

Transparent disclosures like these raise the relevance and usefulness of information provided.

As a general improvement, companies might consider being more transparent in how their previously announced aspirations jibe with what they actually did and how successful they were.

This is particularly crucial for innovation initiatives because of their importance for future growth and also the high uncertainty associated with such initiatives that can require significant financial investment and managerial attention.

Governance of innovation – a key area of my research – represents an avenue in which increased transparency can be fruitful.

Enhancing stakeholder engagement on sustainability

As the spotlight shifts towards the creation of reputational value, mere financial performance is no longer sufficient.

Beyond profits and a strong trajectory, companies are now expected to demonstrate commitment to societal and environmental well-being.

As Minister for Sustainability and the Environment Grace Fu recently commented, business leaders need to "think beyond the next quarter of earnings report" and deliberate on "sustaining its business for decades to come, leaving a legacy that lasts far into the future".

Therefore, companies that acknowledge the imperative of long-term sustainability, and invest efforts to realise it, can forge deeper connections with their stakeholders.

The ability to effectively communicate their dedication to the sustainability cause can further enhance stakeholder engagement.

The award-winning companies produce high-quality comprehensive sustainability reports, referencing frameworks such as the Global Reporting Initiative, Sustainability Accounting Standards Board, United Nations Sustainable Development Goals, and the Task-Force on Climate-related Financial Disclosures.

They provide quantitative data and other evidence on the identification, measurement and alignment of their short-term and long-term targets within the relevant frameworks.

DBS' sustainability report outlines its sustainability approach through its three pillars, disclosing key performance indicators and progress towards various targets, such as its net-zero agenda.

Similarly, SBS and Banyan Tree provide quantitative disclosures on environmental sustainability aspects such as water and waste, along with insights into community impacts through inclusive social initiatives.

Despite general improvements in sustainability reporting since their mandate in 2018, we observe notable differences in the scope and depth of sustainability disclosures across various categories of firms that we evaluated.

For instance, more big-cap companies engage independent assurance for their sustainability reports – a direction smaller and mid-cap companies can also aspire to pursue in order to enhance accountability.

There is room for companies to improve their reporting of environmental strategies and impact. And it is important for companies to focus on key areas most relevant to their business and stakeholders, rather than just ticking the boxes.

I note that a number of companies are issuing separate sustainability reports. Personally, I view that a potential pitfall exists within this segregated reporting approach that necessitates some caution.

To explain, there is a discernible trend among companies to reallocate a substantial portion of risk-related disclosures from the main annual reports to the sustainability reports.

As a result, readers are forced to navigate between two discrete reports to gain a comprehensive understanding of the company, and this might foster confusion.

Furthermore, this disparity might engender a sense of disjointedness from the core annual report, creating an impression that the sustainability report is merely an appendage rather than an integral part of the annual report.

A more thoughtful exploration of alternative integrated reporting methodologies is certainly warranted.

Many of my students often express the daunting nature of reading an annual report – a sentiment likely shared by many. With an average annual report running to more than 120 pages, readers can become overwhelmed.

Adding another 100 pages of a sustainability report, one can easily imagine a collective sigh from my students when they realise that they must review not one, but two, extensive reports to obtain a holistic view of a company's operations.

Harmonising a good annual report

Reading an annual report should be an enjoyable endeavour.

Just as different sections of an orchestra collaborate to create a captivating musical journey, a strong annual report harmonises financial and non-financial elements into an engaging symphony that resonates with stakeholders.

These attributes have certainly been demonstrated by this year's winners of the Best ARA, and their commitment and effort in producing high-quality reports are commendable.

However, not everyone has the ability to create masterpieces.

I've observed that the same small group of companies consistently makes the shortlist for the Best ARA year after year.

Some companies – perhaps with fewer resources to produce the highest-quality reports – may find it challenging to ascend to the top ranks. But that does not imply that they are not continually striving to raise the bar.

Beyond solely celebrating the best, we should also contemplate recognising companies that display remarkable effort and dedication to enhancing the quality of their annual reports. This would inspire other companies to also raise their game.

This brings us back to the question of what makes a good annual report.

I firmly believe that an effective annual report is grounded in transparency, and offers perspectives that weave together a concise yet compelling narrative.

This narrative not only imparts valuable information but also captivates stakeholders, thereby empowering them to make well-informed decisions.

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